

Private United States Direct Investments Abroad

AMERICAN private direct investments abroad at the end of 1949 were valued at \$12.5 billion, an increase of \$1.3 billion during that year. The increment in value in 1949 was the largest in any single year and represented the development of many large-scale overseas projects.

Preliminary data for the first 9 months of 1950 indicate a decline of about 15 percent in capital outflows as compared with the same period of 1949. For the first time since 1945 Canada displaced Latin America as the area receiving the largest capital inflow. This change in position, as well as a somewhat larger capital movement to the ERP countries, resulted from shifts in petroleum investments which in 1950 were declining in Latin America while increasing rapidly in the new oil fields of Canada, and from the expansion of refinery facilities in Europe.

The average annual increase in the 1946-49 period was about \$1 billion, with a larger increase occurring in each successive year. To some extent the amount invested each year usually tends to be cumulative, as larger capital investments provide a larger base for earnings, which are the primary source at present for investment funds. In 1949, however, the increase in value was only \$29 million greater than the increase in 1948, although capital movements were \$90 million higher—because a diminished portion of the earnings of foreign subsidiaries was reinvested abroad.

Investments concentrated in Western Hemisphere

The Western Hemisphere continued to be the most attractive area for direct investments. In the 1920's about 74 percent of the increase in value of investment was in that area, and in the period 1946-9 it was about 66 percent. The relative decline was caused by the large investments in the development of Middle Eastern petroleum in the later period. Europe has been a relatively small field for direct investments in recent years, although in the 1920's about 18 percent of the investment was in that area.

On an industry basis, manufacturing remained an important field for investment, accounting for about 29 percent of the added investment in 1946-49. The most striking deviations from the experience of the 1920's were (a) the practical cessation of investments in public utilities, and (b) the often-mentioned predominance of the petroleum industry in the last few years.

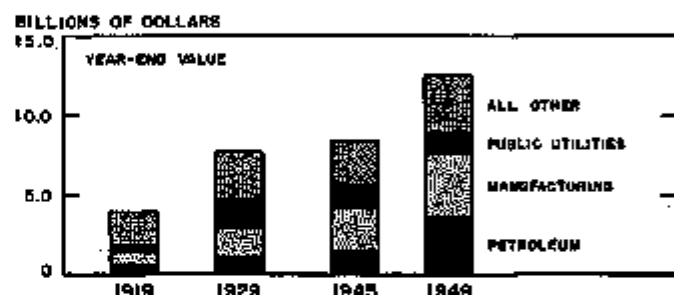
Importance of reinvested earnings

Of the total additions to direct investments abroad in 1949, about 60 percent was recorded as capital movements and the

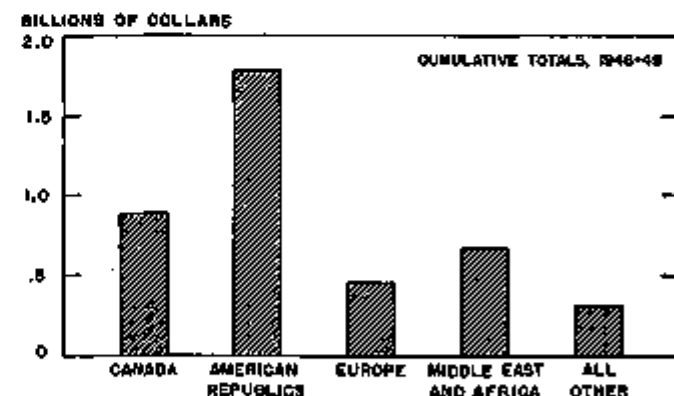
remainder as reinvested earnings. This is about the same proportion for capital movements as is shown in table 2 for the 1946-49 period as a whole, when capital movements accounted for about 58 percent of the total increase in value.

The reinvested earnings of foreign subsidiaries do not enter the balance-of-payments statement,¹ but they contribute to the development of investments abroad in much the same way as do capital movements. For this reason,

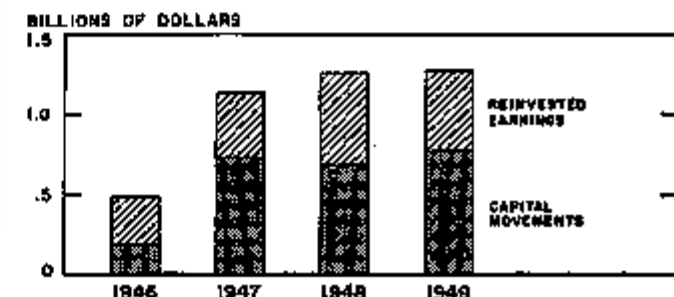
Direct investments reached a record value in 1949 as large petroleum and manufacturing outlays continued.



Investments after 1945 were primarily in the Western Hemisphere and the Middle East



and were financed by both capital outflows and the reinvestment of subsidiary earnings.



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¹ For balance-of-payments purposes total branch earnings (after foreign taxes) are recorded as income receipts in the United States, and the portion of income not remitted to the United States is treated as a flow of capital from the United States to foreign countries. On the other hand, the earnings of foreign subsidiaries, since 1929, are treated as income only to the extent that they are paid out as dividends to the United States. The undistributed portion of foreign subsidiary income is not entered in the balance of payments as either income received or capital invested abroad; this is called "undistributed" earnings of branches, which are treated as income receipts and capital outflows. The term branches includes all actual operations abroad of companies incorporated in the United States including those companies whose total operations are abroad. Subsidiaries are companies incorporated under the laws of foreign countries.

NOTE.—Mr. Pizer and Mr. Cutler are members of the Balance of Payments Division, Office of Business Economics. Data contained in this article are revisions of those published in the SURVEY OF CURRENT BUSINESS of November 1949 and June 1950. More detailed statistics on capital movements by country and industry are available on request to the Balance of Payments Division.

the present discussion is primarily in terms of changes in the value of direct investments abroad, which are the result of both reinvested earnings and capital movements, rather than in terms of capital movements alone.

Since the entire addition to the book value of foreign branches of United States companies, whether from current earnings abroad or from capital contributions of the parent, is included in capital movements, the data on capital movements tend to exaggerate the share in investment activity of those industries and areas where the branch form of organization is predominant. It will be noted in table 2 that for Canada and for the manufacturing group, which is very important in Canada, the major growth since 1945 has come from the reinvestment of subsidiary earnings.

In the petroleum industry, on the other hand, and in the areas where petroleum resources are being developed, most of the increase in investment since 1945 has been recorded as capital movements, since this industry's operations abroad are conducted principally through branches. While the petroleum industry accounted for 80 percent of the net direct-investment capital outflow in 1949, the share of this industry in the increase in value of direct investments abroad in that year was only about 55 percent.

There are several factors, in addition to the difference in type of organization, which affect the relative importance of reinvested earnings for certain industries and areas or for certain years. Probably the most important is that the expansion of long-established enterprises, such as manufacturing plants in Canada, can be financed out of current earnings, while new developments, such as pipeline projects in the Middle East, perforce require financing from the funds of the parent companies.

Other important factors are: (1) The blocking of earnings in some countries by exchange restrictions resulting in involuntary investments by parent companies; (2) there is a greater willingness on the part of parent companies to reinvest earnings in countries which are politically and economically stable, rather than withdraw them; and (3) the desire of the parent companies to have earnings remitted may be affected by United States tax legislation.

Income receipts exceeded capital outflows

Not only was the increase in the value of direct investments abroad derived to a considerable extent from the reinvestment of undistributed subsidiary profits, but the funds employed in capital outflows may also be said to have been drawn very largely from income received from abroad. For example, the data given in table 3 show that in 1948 and 1949 the income received from both foreign branches and subsidiaries was sufficient, in the aggregate, to finance the net capital outflow from the United States parent companies.

There was a wide variation in the experience of individual companies in this respect.² Some companies financed new developments in particular areas out of income received from their established enterprises in other areas. Many companies, making sizable investments abroad for the first time, had to finance their outlays entirely from United States funds. For instance, tabulations made for six petroleum companies which accounted for about 60 percent of all net capital outflows and about 80 percent of the net capital outflow in the petroleum industry in 1947-49 show that only two, which had previously built up large enterprises abroad, had income

receipts from abroad in excess of their net capital outlays abroad. However, for the group of six companies income received from abroad in 1947-49 was only about \$100 million less than their net capital outflows of about \$1.3 billion.

Domestic borrowing a lesser source

A further aspect of the financing of direct investments abroad since 1945 is the reliance on internal corporate funds rather than on the United States capital market. The six petroleum companies mentioned above raised only about \$800 million in the United States capital market in the 1947-49 period—of which probably about half was for investment abroad, accounting for about 30 percent of their net capital outflows.

There were only a few cases, although they were quite sizable, in which United States parent companies financed their investments abroad by borrowing in the United States capital market rather than by using internal corporate funds. The prospect for direct investments abroad in the near future, however, is somewhat different with respect to the means of financing. A larger proportion of the total will probably be in resource developments abroad carried out by companies and groups of companies which have not previously had large investments abroad; although they will depend primarily on their own corporate funds, they will not have foreign earnings on which to draw.

Expansion of petroleum investments at peak

The increase of about \$700 million in the value of petroleum investments abroad in 1949 shown in table 4 was probably the peak of the postwar expansion in that industry. Partial data for 1950 indicate less investment. More than half of the 1949 increase—about \$375 million—was in the American Republics, reflecting about \$80 million in purchases of tankers by foreign subsidiaries, and the final expenditures for major increases in refinery capacity.

Investments in petroleum facilities in the Middle East also continued at a high rate in 1949 as large postwar projects were carried forward. The completion of the trans-Arabian pipeline in 1950 marked the close of the expansion which had been planned at the war's end, but other projects under discussion indicate continued, although diminished, investment activity in that part of the world.

An increasing amount of investment has been flowing to petroleum development in Canada. The exploration of new oil fields, as well as work on refineries, storage facilities, pipelines, and natural gas resources, point to rising investments in that country for some time to come.

Although petroleum investments have been relatively small in the rest of the world, present plans for increased refinery capacity in Western Europe call for capital outlays of considerable magnitude in 1950 and thereafter.

The petroleum industry abroad was particularly affected by the heavy drain on foreign dollar reserves which occurred during the first 9 months of 1949. The major costs of most oil produced abroad by American companies were paid in dollars, and, therefore, the oil was sold almost entirely for dollars. As dollar reserves fell, the United Kingdom established increasingly rigid restrictions on the marketing of dollar oil in the sterling area.

In order to meet this problem several companies worked out arrangements under which they switched as much of their expenditures as possible to foreign currencies, thus being able to accept an increasing proportion of their receipts in foreign currencies and maintain their foreign markets. One of the effects of this change was to shift orders for oil tankers and equipment from United States to foreign suppliers.

² The flow of funds cannot be traced in any direct manner through the books of the individual companies concerned. In the case of foreign branches the net capital contribution of the parent in any period can only be inferred from the data available. It is generally assumed that for foreign branches in the aggregate the net new capital investment for a period may be taken as the excess of the increase in net book value over branch earnings in the period. Similarly, it might be assumed that in the aggregate, an increase in the net book value of branches which is equal to or less than branch earnings is financed out of earnings, and a decrease in book value, while earnings in the aggregate are positive, would be assumed to result from a net withdrawal of capital from abroad.

Table 1.—Value of Private United States Direct Investments Abroad, by Area and Industry, for Selected Years

(Billions of dollars at year end)

Area and industry	1910	1920	1930	1940	1945	1947	1948	1949
All areas	3.8	7.7	7.3	8.4	8.9	10.0	11.2	12.6
Canada	.8	2.0	2.1	2.5	2.7	2.8	3.1	3.4
American Republics	2.0	3.0	2.5	3.0	3.1	3.7	4.2	4.8
ERP countries	1.7	1.2	1.4	1.7	1.8	1.0	2.0	2.1
ERP dependencies	(1)	.2	.3	.3	.3	.4	.5	.6
Other Europe	(1)	.2	.3	.3	.3	.2	.3	.3
All other countries	1.4	.5	.6	.6	.7	.8	1.0	1.2
All industries	3.8	7.7	7.3	8.4	8.9	10.0	11.2	12.6
Manufacturing ²	.8	1.0	2.0	2.7	2.9	3.2	3.0	3.0
Distribution	(1)	.4	.5	.7	.7	.8	.9	1.0
Agriculture ³	.6	.9	.8	.8	.8	.6	.6	.6
Mining and smelting	.0	1.2	1.0	1.1	1.1	1.1	1.1	1.2
Petroleum	.0	1.1	1.3	1.5	1.8	2.4	3.0	3.7
Public utilities	.4	1.7	1.4	1.4	1.3	1.3	1.3	1.3
Miscellaneous	1.0	.5	.6	.6	.8	.7	.7	.6

¹ ERP countries total for 1910 includes other Europe.

² All other countries total for 1910 includes ERP dependencies.

³ Includes paper and pulp enterprises.

⁴ Miscellaneous industry for 1910 includes distribution industry.

⁵ Includes fishing enterprises.

Note.—Details will not necessarily add to totals because of rounding. For important qualifications affecting this table see note to table 2.

Source: U. S. Department of Commerce, Office of Business Economics.

Table 2.—Factors Affecting Value of United States Private Direct Investments Abroad, 1946-49

(Millions of dollars; reduction (-))

Area and industry	Value end of 1945	1946-49			Value end of 1949
		Capital movement	Reinvested earnings	Other factors	
All areas	8,369	2,362	1,768	-34	12,402
Canada	2,527	234	647	-	3,408
American Republics	2,900	1,240	547	-12	4,785
ERP countries	1,089	147	209	-	2,126
ERP dependencies	264	155	133	-	552
Other Europe	329	20	14	-22	341
All other countries	641	587	133	-	1,361
All industries	8,369	2,362	1,768	-34	12,402
Manufacturing ¹	2,671	108	1,027	-10	3,896
Distribution	671	143	174	-2	996
Agriculture ²	618	45	70	(1)	690
Mining and smelting	1,004	87	45	-2	1,234
Petroleum	1,038	1,762	288	-17	3,671
Public utilities	1,347	-75	28	-3	1,307
Miscellaneous	650	120	24	(1)	773

Note.—Capital movements represent the net of known new investments less liquidations. Reinvested earnings are the undistributed portion of the United States equity in the net earnings of foreign-incorporated subsidiaries. Other factors affecting the change in value include some allowance for losses on liquidation and for nationalized investments in Yugoslavia for which compensation has been paid. Value is the book value of the American equity in direct investments abroad and includes expropriated property for which compensation has not yet been received and properties in Germany and Japan. No allowance has been made for war damage or for fluctuations in foreign exchange rates, except that current transactions included in columns 2 and 3 above are converted at current exchange rates.

¹ Includes paper and pulp enterprises.

² Includes fishing enterprises.

³ Less than \$500,000.

Source: U. S. Department of Commerce, Office of Business Economics.

Although there has been a very large expansion of American petroleum investments abroad since 1945, the output achieved will not be sufficient to meet the world demand for long at presently estimated increases in the rate of consumption. In this connection, it is of interest to note that in 1949 Latin-American countries for which data are available consumed 32 percent of their own oil production, while in 1945 they consumed only 23 percent, with production increased by nearly 40 percent in the period.

Manufacturing investments at a reduced rate

The United States investment in manufacturing enterprises abroad increased by \$300 million in 1949 as compared

Table 3.—Capital Movements and Income by Subsidiaries and Branches, and Reinvested Earnings of Subsidiaries, 1948 and 1949

(Millions of dollars)

Item	1948	1949	Total
Net capital outflow, total	684	773	1,457
Subsidiaries	322	337	659
Branches	362	436	798
Income receipts, total	1,111	1,008	2,119
Subsidiaries	432	431	863
Branches	679	577	1,256
Reinvested earnings of subsidiaries	500	495	995

Source: U. S. Department of Commerce, Office of Business Economics.

Table 4.—Value of Private American Direct Investments Abroad, by Area and Industry, 1945-49

(Millions of dollars)

Area and year end	Manufacturing ¹	Distribution	Agriculture ²	Mining and smelting	Petroleum	Public utilities	Miscellaneous	Total
All areas:								
1945	2,571	671	618	1,004	1,538	1,357	660	8,369
1946	2,664	740	616	1,002	1,762	1,277	647	8,854
1947	3,171	815	664	1,100	2,357	1,268	606	9,970
1948	3,672	919	632	1,135	2,970	1,280	581	11,305
1949	3,598	960	630	1,204	3,671	1,307	773	12,402
Canada:								
1945	1,145	141	13	451	161	363	233	2,671
1946	1,307	153	14	453	179	378	276	2,690
1947	1,326	180	14	481	227	371	271	2,900
1948	1,542	194	13	488	284	345	283	3,126
1949	1,694	212	13	506	357	347	287	3,408
American Republics:								
1945	433	145	420	412	645	606	60	2,690
1946	438	153	445	396	762	621	61	3,145
1947	585	209	460	425	1,689	648	102	3,736
1948	678	203	632	430	1,337	654	120	4,206
1949	765	204	630	457	1,703	678	136	4,785
ERP countries:								
1945	625	265	4	64	299	20	203	1,469
1946	685	281	4	64	310	20	204	1,706
1947	946	293	4	64	348	20	214	1,779
1948	1,082	295	4	64	385	20	224	2,022
1949	1,092	299	4	64	401	20	246	2,126
ERP dependencies:								
1945	12	17	60	40	127	6	7	264
1946	13	16	62	30	152	6	7	290
1947	15	18	60	38	280	6	7	360
1948	17	21	60	39	317	6	9	404
1949	18	22	67	38	399	6	10	552
Other Europe:								
1945	105	20	2	85	64	20	24	320
1946	108	20	2	85	64	10	25	328
1947	111	40	2	85	66	10	25	337
1948	108	30	2	81	63	6	25	324
1949	109	40	2	81	76	6	25	341
All other countries:								
1945	144	64	23	12	242	41	35	561
1946	158	83	25	13	280	43	35	648
1947	175	98	26	18	417	43	48	830
1948	197	107	25	21	570	47	55	1,035
1949	217	119	40	26	733	50	86	1,261

Note.—For important qualifications affecting this table see note to table 2.

¹ Includes paper and pulp enterprises.

² Includes fishing enterprises.

Source: U. S. Department of Commerce, Office of Business Economics.

with \$400 million in 1948. The increase in Canada in 1949 was considerably less than in the previous year, partly because of a drop in the proportion of earnings which was reinvested. There is a renewed interest by United States companies in development of the Canadian paper and pulp industry and other manufactures—with a view to meeting the rising demand in the United States and elsewhere for these products.

Most of the investment in manufacturing since 1945 has been in the form of reinvested earnings, and in some countries the investment was involuntary since exchange controls restricted remittances of earnings. It is likely that in such cases there was a tendency to hold assets in relatively liquid

Table 5.—United States Private Direct-Investment Capital Movements by Selected Countries, 1946-49

(Millions of dollars; inflow (-))

Country	1946	1947	1948	1949
All areas.....	182	723	654	773
Canada and Newfoundland.....	38	13	77	106
American Republics, total.....	58	442	321	428
Argentina.....	-83	44	19	1
Brazil.....	23	60	32	31
Chile.....	4	6	-4	24
Colombia.....	18	3	4	10
Costa Rica.....	5	9	4	-7
Cuba, Dominica Republic and Haiti.....	-7	6	10	-0
Ecuador.....	1	-3	2	2
Guatemala.....	3	1	3	3
Honduras.....	7	14	6	10
Mexico.....	-1	21	20	-8
Panama.....	25	121	41	124
Paraguay.....	2	3	3	3
Peru.....	1	17	-4	-15
Uruguay.....	1	(1)	1	1
Venezuela.....	61	130	181	245
Other countries.....	(1)	3	3	1
ERP countries, total.....	15	47	49	34
United Kingdom.....	2	20	17	23
Belgium.....	3	7	3	(1)
Denmark.....	3	(1)	3	-1
France.....	1	1	14	4
Germany.....	-2	1	3	-1
Italy.....	1	1	4	7
Netherlands.....	3	3	0	0
Portugal.....	1	3	(1)	-1
Sweden.....	4	6	-1	-1
Switzerland.....	1	2	(1)	-1
Other countries.....	1	3	-1	-1
ERP dependencies, total.....	0	63	68	28
British West Indies.....	1	8	2	2
Netherlands East Indies.....	4	28	-3	4
Hong Kong, Malaya and Straits Settlements.....	4	4	2	2
Dependencies in Africa.....	4	5	8	-2
Other dependencies.....	-7	8	63	22
Other Europe, total.....	1	1	5	12
Spain.....	1	2	2	14
Other countries.....	(1)	-1	3	-1
All other countries, total.....	61	167	165	164
Australia.....	4	22	3	13
China.....	11	8	7	-3
India, Ceylon, and Pakistan.....	4	-1	(1)	3
Japan, Korea, Siam.....	1	3	1	3
Middle Eastern countries.....	21	61	124	112
New Zealand.....	2	3	1	-1
Republic of the Philippines.....	15	23	12	-6
Union of South Africa.....	5	18	15	-5
Other countries.....	-2	-	2	49

Notes.—The above capital movement data include the financing of ship sales to foreign flag operators controlled in the United States as follows:

Total	1946	1947	1948	1949
Panama.....	14.0	110.2	36.7	63.5
Other Latin America.....	1.1	7.9	2.6	17.5
Liberty.....	-	-	-	46.2
All other countries.....	-	7.1	1.7	-

These vessels perform international shipping operations and are considered to be investments in the countries under whose flag they operate. However, these data are given separately since for some purposes, and particularly for a few countries, they distort the overall investment picture.

¹ Less than \$500,000.

² Includes Egypt, Iran, Iraq, Israel, Lebanon, Oman, Saudi Arabia, Syria, Jordan, Transjordan, Oman, and Yemen; excludes Bahrain and Kuwait.

Source: U. S. Department of Commerce, Office of Business Economics.

forms rather than in increased investments in plant and equipment.

In the case of Israel, the amount of investment that took place in 1949 and is projected for the future does not bulk large in the total, but it represents the major investment of this type in the Middle East.

Mining investments more important

A period of striking expansion in mining enterprises abroad was inaugurated in 1949 with an increase of \$70 million, considerably more than was invested in previous years.

Nearly all of this took place in the Western Hemisphere, and represented the initiation of a group of projects which, when completed in the next few years, will nearly double the current investment of \$1 billion in the mining and smelting industry in this area. In addition, there are many mining projects already under way or committed for the rest of the world, largely Africa, which, if carried out as planned, will equal the amount already invested by this industry outside of the Western Hemisphere.

The search for new sources of raw materials has been stimulated by the need to discover and develop new and reliably accessible sources for materials needed in the United States. The additional requirements of an accelerated preparedness program will undoubtedly hasten developments in this field.

There was little noteworthy activity in direct investments in the other industries abroad in 1949. Investments in distribution enterprises were somewhat less than in the previous year, and were derived very largely from reinvested earnings of foreign subsidiaries. Investments in the "miscellaneous" group of industries were much larger than in 1948, but the inclusion of insurance companies in this group results in somewhat arbitrary capital movements. Neither agricultural enterprises or public utilities exhibited any tendency to expand foreign facilities substantially in 1949, with the reinvestment of earnings accounting for most of the small increase in value which occurred.

Investments follow established pattern

Slightly more than half of the increase in value of direct investments abroad in the 1946-49 period, excluding petroleum, was in Canada and Western Europe. The increase in value of industries other than petroleum in the rest of the world was substantial, amounting to about \$950 million in the period, but it was largely directed to those countries which were industrialized and offered expansion possibilities.

Various methods have been suggested for encouraging direct-investment capital outflows to countries where productivity is relatively low—such as the negotiation of treaties containing specific provisions to protect investors against discriminatory treatment, easing of the tax burden on foreign earnings, and guarantees by the United States Government covering risks peculiar to foreign investment. Guarantees for investments in areas participating in the ECA program have been available since early in 1948, but as of August 31, 1950, the total amount of industrial guarantees amounted to only \$23 million, of which 63 percent was in a single petroleum project in Italy.

Treaties have been negotiated with three countries, Italy, Eire, and Uruguay, containing specific references, particularly in the case of Uruguay, to the treatment of foreign investments. Discussions are in progress with a large number of countries on this subject, and some countries, such as India, Turkey, Iran, and Israel, have taken steps through public statements or legislation to induce more foreign investment.

On the question of taxation of foreign earnings the Secretary of the Treasury has recommended that the tax on the income of foreign branches be postponed until the foreign earnings are brought home, and that the provisions for allowing credit for foreign taxes paid be liberalized in some respects. However, no legislation has been enacted as yet covering these recommendations. All these developments are comparatively recent and come at a time when the situation abroad is changing rapidly, so that, although the immediate effect on capital outflows has been small, it is too early to assess the longer run effects.